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Report on Greece's compliance with the commitments in the Euro Summit statement of 12 July 2015

This report has been compiled by European Commission staff in liaison with ECB and IMF staff.

The Euro Summit of 12 July stressed the crucial need to rebuild trust with the Greek authorities as a pre-requisite for a possible future agreement on a new ESM programme. In that context, that the ownership by the Greek authorities is key, and successful implementation should follow policy commitments.

The Euro Summit welcomed the commitments of the Greek authorities to legislate without delay a first set of measures. These measures, taken in full prior agreement with the Institutions, will include:

by 15 July 2015

1. the streamlining of the VAT system and the broadening of the tax base to increase revenue;

2. upfront measures to improve long-term sustainability of the pension system as part of a comprehensive pension reform programme;

3. the safeguarding of the full legal independence of ELSTAT;

4. full implementation of the relevant provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, in particular by making the Fiscal Council operational before finalizing the MoU and introducing quasi-automatic spending cuts in case of deviations from ambitious primary surplus targets after seeking advice from the Fiscal Council and subject to prior approval of the Institutions;

The Euro Summit also stated that immediately, and only subsequent to the legal implementation of the four above-mentioned measures as well as endorsement of all the commitments included in the Euro Summit statement by the Greek Parliament, verified by the Institutions and the Eurogroup, may a decision to mandate the Institutions to negotiate a Memorandum of Understanding (MoU) be taken.

The government has adopted Law 4334/2015 (FEK A.80) on 15 July 2015, covering the areas mentioned above.

Pending a final translation of the passed legislation, and thus with the caveat that additional changes may be needed as part of a comprehensive package, this report assesses whether the first set of four measures has been implemented and whether all the commitments included in the Euro Summit statement have been endorsed by the Greek Parliament.

1. The streamlining of the VAT system and the broadening of the tax base to increase revenue

Law 4334/2015 unifies the rates at a standard 23 percent rate, which will include restaurants and catering, a reduced 13 percent rate for basic food, energy, hotels, and water (excluding sewage), and a super-reduced rate of 6 percent for pharmaceuticals, books, and theatre, and now also for newspapers and magazines. The legislation eliminates the VAT discounts for islands, starting in October 2015 with the islands with higher incomes and which are the most popular tourist destinations. Regarding the discounts for most-remote islands by end-2016, the legal drafting on the latter point needs to be clarified to indicate that the full elimination of the discount takes place by that date. The new VAT rate on hotels will also be implemented from October 2015. VAT exemptions have been removed on fees of tutoring entities (frontistiria) of all educational levels and of foreign language and computer schools. The overall package will deliver a significant revenue gain approaching 1 percent of GDP on an annual basis.

The authorities have also taken a set of other measures to increase revenues. This includes an increase in corporate tax to 29%, an increase in income tax pre-payments, an increase in insurance taxes and an increase in luxury taxes with a broader base.

2. Upfront measures to improve long-term sustainability of the pension system as part of a comprehensive pension reform programme

Law 4334/2015 contains the following measures on pensions, while their coverage remains to be clarified and addressed if necessary:

- The granting of guaranteed contributory pension to those retiring after 30 June 2015 only at the attainment of the statutory normal retirement age of currently 67 years as;
- The increase of health contributions for pensioners to 6% and the collection of health contributions also to be applicable for supplementary pensions as from 1 July 2015.
- The integration into ETEA of all supplementary pension funds as of 1 August 2015 and ensuring that starting from that date all supplementary pension funds are only financed by own contributions;
- Restating that the 2010 pension reform is to be applied and some of the existing grandfathering be removed. While this restatement in primary legislation is welcome, secondary legislation that ensures implementation of the law is still needed.

The authorities have also frozen monthly state contribution to minimum pension in nominal terms at 1 July 2015 levels until end-2021; however, this amendment should be corrected to ensure that it is guaranteed contributory pensions benefits which are frozen, and not contributions, and that new retirees are also affected by the legislation. Secondary legislation is needed to implement the measures.

It should be noted that, in line with Article 73 of the Constitution, parallel legislation may be needed to ensure that the measures freezing contributory pensions and granting guaranteed contributory pension to those retiring after 30 June 2015 only at the attainment of the statutory normal retirement age of currently 67 years apply for the categories of the public sector. The Authorities should prepare and legislate the parallel legislation as soon as possible, if needed.

Significant further legislative action to ensure the sustainability of the pension system has to be taken urgently in the coming weeks in consultation and agreement with the institutions (e.g. early retirement, harmonization of contribution rules across funds).

3. The safeguarding of the full legal independence of ELSTAT;

Law 4334/2015 includes provisions that significantly strengthen the independence of ELSTAT. The legal amendments deal with the following issues: (i) the role and structure of the Advisory bodies of the Hellenic Statistical System, including the recasting of the Council of ELSS to an advisory Committee of the ELSS, and the role of the Good Practice Advisory Committee (GPAC); (ii) the recruitment procedure for the President of ELSTAT, to ensure that a President of the highest professional calibre is recruited, following transparent procedures and selection criteria; (iii) the involvement of ELSTAT as appropriate in any legislative or other legal proposal pertaining to any statistical matter; (iv) other issues that impact the independence of ELSTAT, including financial autonomy, the empowerment of ELSTAT to reallocate existing permanent posts and to hire staff where it is needed and to hire specialised scientific personnel, the removal of the classification of the institution as a fiscal policy body in the recent law 4270/2014; the exchange of information with the General Accounting Office; the role of the Bank of Greece in relation to the Official Statistics Programme and the use by the Bank of Greece of data produced by ELSTAT, and vice versa. The reforms introduced by Law 4334/2015 constitute significant progress to safeguard the legal independence of ELSTAT.

4. Full implementation of the relevant provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

Greece deposited its instruments of ratification of the Treaty on Stability, Coordination and Governance in Economic and Monetary Union (TSCG) on 10 May 2012. Law 4270/2014 (FEK 143), adopted on 28 June 2014 in close consultation with the institutions, implements the Fiscal Compact. The law introduces the balanced budget rule including specification of the medium-term objective (MTO) and the TSCG lower limit, convergence towards the MTO and escape clauses. It already contains an automatic correction mechanism (Articles 38-41), with criteria and procedures for activation, including automatic triggering in the event of a Council recommendation under Article 6(2) of Council Regulation (EC) N° 1466/97 and under notification of a significant deviation by the Hellenic Fiscal Council. The substance of the correction emphasises consistency with the EU framework, incorporates the principle of proportionality, and provides for regular monitoring. Beyond TSCG requirements, for the subsectors, there are budget balance targets for state owned enterprises, extra budgetary funds and local governments which are monitored quarterly and controlled with payment appropriations limits or with offsetting state transfers if the objectives are not respected. Furthermore, there are specific rules for state expenditure ceilings by ministries including pharmaceutical spending. Spending ceilings are monitored and 10% of expenditure appropriations are withheld and released only in the second half of the year if there is no significant deviation incurred.

Law 4334/2015 includes provisions that complement Law 4270/2014 by reinforcing the existing correction mechanism in case of the deviation from fiscal targets and to strengthen the influence of the Fiscal Council. The Fiscal Council shall propose to the Minister for Finance semi-automatic cost-cutting measures in the event of deviation from primary balance targets, taking account of monthly / quarterly targets under the economic adjustment programme excluding the investment part, defined for all subsectors of government. If at general government level there appear significant deviations from the quarterly target, which is not attributed to exceptional circumstances, a corrective mechanism shall be activated after an opinion of the Fiscal Council and requires addressing the deviation, either by cutting spending or taking action to strengthen revenues. To ensure legal clarity, these provisions

should be integrated into Law 4270/2014, and some technical details need clarification, e.g. the determination of targets, the size of the deviation which would trigger the expenditure cuts, the implication of the government not following the recommendation of the Fiscal Council, and how the allocation between revenue and expenditure adjustments is defined. Two cross-references between the laws will need to be updated when possible.

The Greek government has committed to making the Fiscal Council operational before finalizing the MoU. For this to happen, the government urgently needs to adopt a Ministerial Decision to start immediately the open procedure to select at least one and up to five members of the board. The government will in the meantime decide whether to select any of the four candidates shortlisted as part of the procedure which was conducted at the end of 2014 and not concluded. The Fiscal Council can be operational with 4 members. It can start the staffing and budgeting exercise as soon as the board is appointed, and two joint ministerial decisions will be needed on these issues at a later.

Conclusion

Pending a final translation of the passed legislation, Law 4334/2015 includes the necessary legal provisions related to the set of measures identified by the Euro Summit. From the analysis above it can be concluded that the Greek authorities have legally implemented the first set of four measures in a timely and overall satisfactory manner, against a very short timeframe for adoption. Improvements need to be made to the legislation to address some issues and ensure that the stated objectives are fully achieved. Implementation risks are high and some measures will have to be revisited as part of a broader package of measures.

The institutions have been informed that endorsement by the Greek Parliament of all the commitments included in the Euro Summit statement of 12 July has been made by including the statement in the preamble of the Law 4334/2015, but were unable to verify that at the moment of concluding this report.